



**Vulamehlo Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2015**  
Auditor General (South Africa)

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## General Information

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<b>Nature of business and principal activities</b>	Providing services to the community of Vulamehlo
<b>Executive Committee</b>	Councillor WT Dube - Mayor Councillor NP Mpanza - Deputy Mayor Councillor DMM Hlengwa - Speaker Councillor MD Ncwane Councillor BC Mqadi Councillor BC Mngadi
<b>Councillors</b>	Councillor T Muthwa Councillor LL Kweyama Councillor PM Dlamini Councillor AB Ndlovu Councillor FB Shezi Councillor MA Ntombela Councillor ZT Hlongwa Councillor GZ Jwara Councillor MC Ngcobo Councillor TP Phetha Councillor DP Duma Councillor NR Dlamini Councillor AS Mchunu Councillor BG Myeza
<b>Accounting Officer ( Municipal Manager)</b>	Mr Msizi H Zulu
<b>Chief Financial Officer (CFO)</b>	Mr TS Khwela
<b>Registered Office</b>	P77 Main Road Dududu 4180
<b>Business Address</b>	P77 Main Road Dududu 4180
<b>Postal Address</b>	Private Bag X5509 Scottburgh 4180
<b>Bankers</b>	Absa Bank Standard Bank
<b>Auditors</b>	Auditor General (South Africa)

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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### Abbreviations

GRAP	Generally Recognised Accounting Practice
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Vulamehlo Local Municipality**

Annual Financial Statements for the year ended 30 June 2015

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. Any system of internal financial control, however, can only provide a reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on government grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the National Treasury has neither the intention nor the need to liquidate or curtail materially the scale of municipality.

I certify that the salaries, allowances and benefits of councillors in note 24 of these annual financial statements are within upper limits of the framework envisaged in section 219 of the constitution, read with the remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 4 to 60, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:

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**Mr M H Zulu**  
**Municipal Manager**

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Position as at 30 June 2015

	Note(s)	2015 R	Restated 2014 R
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	7	1 456 045	488 754
VAT receivable	8	-	7 118 764
Receivables from non exchange transactions	9	1 279 840	1 333 484
Cash and cash equivalents	10	31 715 749	8 773 059
		<b>34 451 634</b>	<b>17 714 061</b>
<b>Non-Current Assets</b>			
Investment property	2	185 000	185 000
Property, plant and equipment	3	125 208 782	126 115 469
Intangible assets	4	12 505	46 850
Long term receivables	6	169 211	169 211
		<b>125 575 498</b>	<b>126 516 530</b>
<b>Total Assets</b>		<b>160 027 132</b>	<b>144 230 591</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	13	254 125	759 747
Payables from exchange transactions	16	6 561 895	5 162 862
VAT payable	17	1 003 889	-
Unspent conditional grants and receipts	14	5 776 103	3 113 250
Provisions	15	2 117 513	1 553 188
		<b>15 713 525</b>	<b>10 589 047</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	13	784 030	601 685
Employee benefit obligation	5	368 852	465 804
		<b>1 152 882</b>	<b>1 067 489</b>
<b>Total Liabilities</b>		<b>16 866 407</b>	<b>11 656 536</b>
<b>Net Assets</b>		<b>143 160 725</b>	<b>132 574 055</b>
<b>Net Assets</b>			
Reserves			
Revaluation reserve	11	163 391	163 391
Accumulated surplus	12	142 997 334	132 410 664
<b>Total Net Assets</b>		<b>143 160 725</b>	<b>132 574 055</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Performance for the year ended 30 June 2015

	Note(s)	2015 R	Restated 2014 R
<b>Revenue</b>			
Rental of facilities and equipment	31	271 264	260 000
Other income	21	102 702	142 632
Interest received	27	1 523 098	856 364
Property rates	19	2 234 469	2 236 507
Government grants & subsidies	20	71 472 089	66 853 649
<b>Total revenue</b>		<b>75 603 622</b>	<b>70 349 152</b>
<b>Expenditure</b>			
Employee related costs	23	(17 654 601)	(15 355 388)
Remuneration of councillors	24	(7 817 832)	(6 683 911)
Depreciation and amortisation expense	28	(11 515 639)	(15 471 921)
Finance Costs	29	(259 046)	(299 429)
Debt impairment	26	(761 050)	(62 028)
Repairs and maintenance	25	(616 207)	(407 280)
Contracted services	32	(692 889)	(99 816)
Grants and subsidies paid	33	(8 139 761)	(7 995 302)
General expenses	22	(17 694 798)	(15 399 290)
<b>Total expenditure</b>		<b>(65 151 823)</b>	<b>(61 774 365)</b>
<b>Operating surplus</b>		<b>10 451 799</b>	<b>8 574 787</b>
Gain (loss) on disposal of assets and liabilities	34	134 870	(21 633)
<b>Surplus for the year</b>		<b>10 586 669</b>	<b>8 553 154</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Changes in Net Assets for the year ended 30 June 2015

	Revaluation reserve R	Accumulated surplus R	Total net assets R
Opening balance as previously reported	163 391	123 712 635	123 876 026
Adjustments			
Correction of errors		144 875	144 875
<b>Restated balance at 01 July 2013</b>	<b>163 391</b>	<b>123 857 510</b>	<b>124 020 901</b>
Changes in net assets			
Surplus for the year		8 553 154	8 553 154
Total changes		8 553 154	8 553 154
Opening balance as previously reported	163 391	132 232 911	132 396 302
Adjustments			
Correction of errors (Note 39)		177 754	177 754
<b>Balance at 01 July 2014 as restated*</b>	<b>163 391</b>	<b>132 410 665</b>	<b>132 574 056</b>
Changes in net assets			
Surplus for the year		10 586 669	10 586 669
Total changes		10 586 669	10 586 669
<b>Balance at 30 June 2015</b>	<b>163 391</b>	<b>142 997 334</b>	<b>143 160 725</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Cash Flow Statement for the year ended 30 June 2015

	Note(s)	2015 R	Restated 2014 R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Grants		74 420 252	59 525 611
Interest Income		1 523 098	856 364
Receipts from customers		2 583 010	1 509 970
		<u>78 526 360</u>	<u>61 891 945</u>
<b>Payments</b>			
Employee Costs		(25 005 060)	(21 682 939)
Finance costs		(259 046)	(299 429)
Payments to suppliers		(27 679 205)	(23 009 492)
Movement in VAT		8 122 653	(780 023)
		<u>(44 820 658)</u>	<u>(45 771 883)</u>
<b>Net cash flows from operating activities</b>	35	<b><u>33 705 702</u></b>	<b><u>16 120 062</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(10 754 715)	(19 599 105)
Proceeds from sale of Property, Plant and Equipment	3	320 159	33 000
Purchase of other intangible assets	4	(5 180)	(13 165)
<b>Net Cash Flows from Investing Activities</b>		<b><u>(10 439 736)</u></b>	<b><u>(19 579 270)</u></b>
<b>Cash Flows from Financing Activities</b>			
Finance lease payments		(323 277)	(547 828)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>22 942 689</u></b>	<b><u>(4 007 036)</u></b>
Cash and cash equivalents at the beginning of the year		8 773 059	12 780 095
<b>Cash and cash equivalents at the end of the year</b>	10	<b><u>31 715 748</u></b>	<b><u>8 773 059</u></b>



# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2015

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Rental of facilities and equipment	297 029	(29)	<b>297 000</b>	271 264	<b>(25 736)</b>	
Other income	39 000	43 000	<b>82 000</b>	102 702	<b>20 702</b>	Appendix C
Interest received - investment	650 000	50 000	<b>700 000</b>	1 523 098	<b>823 098</b>	Appendix C
<b>Total revenue from exchange transactions</b>	<b>986 029</b>	<b>92 971</b>	<b>1 079 000</b>	<b>1 897 064</b>	<b>818 064</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	2 234 611	-	<b>2 234 611</b>	2 234 469	<b>(142)</b>	
Government grants & subsidies	75 390 000	3 514 132	<b>78 904 132</b>	71 472 089	<b>(7 432 043)</b>	Appendix C
<b>Total revenue from non-exchange transactions</b>	<b>77 624 611</b>	<b>3 514 132</b>	<b>81 138 743</b>	<b>73 706 558</b>	<b>(7 432 185)</b>	
<b>Total revenue</b>	<b>78 610 640</b>	<b>3 607 103</b>	<b>82 217 743</b>	<b>75 603 622</b>	<b>(6 614 121)</b>	
<b>Expenditure</b>						
Employee related costs	(18 331 579)	-	<b>(18 331 579)</b>	(17 654 601)	<b>676 978</b>	47.1
Remuneration of councillors	(6 001 581)	-	<b>(6 001 581)</b>	(7 817 832)	<b>(1 816 251)</b>	47.2
Depreciation and amortisation	(8 400 000)	(2 901 402)	<b>(11 301 402)</b>	(11 515 639)	<b>(214 237)</b>	47.3
Finance costs	(8 432)	-	<b>(8 432)</b>	(259 046)	<b>(250 614)</b>	47.4
Debt impairment	(2 000 000)	(279 001)	<b>(2 279 001)</b>	(761 050)	<b>1 517 951</b>	47.5
Repairs and maintenance	(4 056 425)	(1 656 461)	<b>(5 712 886)</b>	(616 207)	<b>5 096 679</b>	47.6
Contracted Services	-	-	-	(692 889)	<b>(692 889)</b>	
Grants and subsidies paid	(19 397 100)	(2 910 132)	<b>(22 307 232)</b>	(8 139 761)	<b>14 167 471</b>	47.7
General Expenses	(14 151 549)	(1 211 625)	<b>(15 363 174)</b>	(17 694 798)	<b>(2 331 624)</b>	47.8
<b>Total expenditure</b>	<b>(72 346 666)</b>	<b>(8 958 621)</b>	<b>(81 305 287)</b>	<b>(65 151 823)</b>	<b>16 153 464</b>	
<b>Operating surplus</b>	<b>6 263 974</b>	<b>(5 351 518)</b>	<b>912 456</b>	<b>10 451 799</b>	<b>9 539 343</b>	
Gain on disposal of assets and liabilities	-	-	-	134 870	<b>134 870</b>	
<b>Surplus or (Deficit)</b>	<b>6 263 974</b>	<b>(5 351 518)</b>	<b>912 456</b>	<b>10 586 669</b>	<b>9 674 213</b>	
<b>Actual Amount on Comparable Basis</b>	<b>6 263 974</b>	<b>(5 351 518)</b>	<b>912 456</b>	<b>10 586 669</b>	<b>9 674 213</b>	

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise. Details of any changes in the accounting policies are provided in the "Changes in accounting policy note".

#### STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting

GRAP 20 Related Party Disclosures

GRAP 32 Service Concession Arrangements: Grantor

GRAP 105 Transfer of Functions between entities under common control

GRAP 106 Transfer of Functions between entities not under common control

GRAP 107 Mergers

GRAP 108 Statutory Receivables

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going Concern Basis

The annual financial statements have been prepared on the assumption that the municipality will continue to operate on a going concern basis for at least the next twelve months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Trade receivables and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

#### Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

#### Useful lives of infrastructure and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the infrastructure and other assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

Government accounts are not provided for as such accounts are regarded as receivable

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

#### Property, plant and equipment

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for community assets which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value, with the exception of community assets. Community assets are depreciated based on the revalued amounts over the revised useful life.

The useful lives of items of property, plant and equipment have been assessed as follows:

Land	Years
Community	
• Buildings	8 to 30
• Water Tanks	10
Infrastructure	
• Roads and Paving	10
Other Assets	
• Furniture and Fittings	3 to 8
• Motor vehicles	5
• Plant and Machinery	10
• Office Equipment	3 to 7

The residual value, the useful life of an asset and the depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance. Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.6 Intangible assets

An asset is identified as an intangible asset if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

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### 1.6 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3-5 years

### Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 1.7 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;

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Annual Financial Statements for the year ended 30 June 2015

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### 1.7 Financial Instruments (continued)

- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by a municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of a municipality after deducting all of its liabilities.

A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unutilised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of a municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of a municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;



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### 1.7 Financial Instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Classification

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or residual interests in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes party to the contractual provisions of the instrument. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto

#### Class

Cash and cash equivalents  
Long term receivables  
Receivables from exchange transactions  
Receivables from non-exchange transactions

#### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost

The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

#### Class

Finance lease obligation  
Payable from exchange transaction  
Unspent conditional grants and receipts  
Current portion of long term liabilities

#### Category

Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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## Accounting Policies

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### 1.7 Financial Instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.G. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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### 1.7 Financial Instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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## Accounting Policies

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### 1.7 Financial Instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its Statement of Financial Position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.7 Financial Instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the Statement of Financial Position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

### 1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### Finance leases - lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

#### Operating leases - lessor

Rental income from operating leases is recognised on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in statement of financial performance

#### Operating Leases - Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This liability is not discounted. Any contingent rents are expensed in the period they are incurred.

# Vulamehlo Local Municipality

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## Accounting Policies

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### 1.9 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### 1.10 Impairment of assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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### 1.10 Impairment of assets (continued)

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.10 Impairment of assets (continued)

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.



# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.10 Impairment of assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.11 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced in an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.11 Impairment of non-cash-generating assets (continued)

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.12 Employee Benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.12 Employee Benefits (continued)

#### Short-term employee benefits

The cost of short term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period which the service is rendered and are not discounted and is accounted for as a currently liability.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service; and
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

#### Multi-employer plans

All municipal employees belong to The Natal Joint Municipal Pension Fund (Superannuation), The Natal Joint Municipal Pension Fund (Retirement) and The KwaZulu-Natal Joint Municipal Provident Fund which are administered by the Province. The municipality classifies a multi-employer plan contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

The KwaZulu-Natal Joint Municipal Provident Fund is a defined contribution plan and the municipality accounts for it in the same way as for any other defined contribution plan.

The Natal Joint Municipal Pension Fund (Superannuation) and The Natal Joint Municipal Pension Fund (Retirement) are defined benefit plans. Sufficient information is not available to use defined benefit accounting for these plans, therefore the entity accounts for these plans as if it was a defined contribution plan.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.13 Provisions and Contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

### 1.14 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

### 1.15 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.15 Revenue from non-exchange transactions (continued)

#### Donations and Contributions

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

### 1.16 Comparative Figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

### 1.17 Unauthorised Expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.18 Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.19 Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.20 Use of Estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.21 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued assets are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.22 Conditional Grants and Receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.23 Budget Information

Municipality municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.24 Value Added Tax (VAT)

The municipality accounts for VAT on a payments basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

### 1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events; where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.26 Commitments

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance, but are included in the disclosure notes. A distinction is made between capital and operating commitments.

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments. Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met.

- Contracts should be non-cancellable or only cancellable at significant cost; and
- Contracts should relate to something other than the routine, steady, state business of the entity - therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.27 Related parties

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# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.27 Related parties (continued)

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of ordinary business are disclosed.



# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	Restated 2014 R
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### 2. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	185 000	-	185 000	185 000	-	185 000

#### Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	185 000	185 000

#### Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	185 000	185 000

The Municipality has classified the Post office as investment property. The property is situated at Vulamehlo Ward No 6 and measures approximately 80 square metres. The municipality uses the fair value model to value its investment properties. A fair value assessment was undertaken by Mills Fitchet. The valuation methodology applied is the market value.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>2. Investment property (continued)</b>		
<b>Details of valuation</b>		
<p>The effective date of the revaluations was 30 June 2015. Revaluations were performed by an independent valuer, Alan Robert Stephenson of Mills Fitchet (Pty) Ltd. He is registered as a Professional Valuer in terms of section 20(2)(a) read with section 43(8) of the Property Valuers Professional Act, 2000. Alan Robert Stephenson is not connected to the municipality and have recent experience in location and category of the investment property being valued.</p>		
<p>The valuation was based on open market value for existing use.</p>		
<p>These assumptions are based on current market conditions.</p>		
<p>Amounts recognised in surplus for the year.</p>		
Rental revenue from investment property	33 721	39 750

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Leasehold Buildings	3 324 535	(1 323 072)	2 001 463	3 324 535	(1 180 038)	2 144 497
Infrastructure	38 199 282	(8 438 588)	29 760 694	38 026 244	(5 214 925)	32 811 319
Community	148 591 924	(73 377 451)	75 214 473	141 653 259	(66 135 902)	75 517 357
Assets under construction	14 494 032	-	14 494 032	12 025 450	-	12 025 450
Other assets	8 166 231	(4 428 111)	3 738 120	8 220 358	(4 603 512)	3 616 846
<b>Total</b>	<b>212 776 004</b>	<b>(87 567 222)</b>	<b>125 208 782</b>	<b>203 249 846</b>	<b>(77 134 377)</b>	<b>126 115 469</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
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### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfer from assets under construction	Disposals	Depreciation	Total
Leasehold Buildings	2 144 497	-	-	-	(143 034)	2 001 463
Infrastructure	32 811 319	173 037	-	-	(3 223 662)	29 760 694
Community	75 517 357	-	6 938 665	-	(7 241 549)	75 214 473
Assets under construction	12 025 450	9 407 247	(6 938 665)	-	-	14 494 032
Other assets	3 616 846	1 174 431	-	(185 289)	(867 868)	3 738 120
	<b>126 115 469</b>	<b>10 754 715</b>	<b>-</b>	<b>(185 289)</b>	<b>(11 476 113)</b>	<b>125 208 782</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
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### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Additions through transfers	Disposals	Depreciation	Total
Leasehold Buildings	2 241 864	-	-	-	(97 367)	2 144 497
Infrastructure	27 307 359	-	8 474 444	-	(2 970 484)	32 811 319
Community	78 311 315	-	8 471 564	-	(11 265 522)	75 517 357
Assets under construction	10 590 614	18 380 844	(16 946 008)	-	-	12 025 450
Other assets	3 464 978	1 218 261	-	(54 633)	(1 011 760)	3 616 846
	<b>121 916 130</b>	<b>19 599 105</b>	<b>-</b>	<b>(54 633)</b>	<b>(15 345 133)</b>	<b>126 115 469</b>

#### Pledged as security

Carrying value of assets pledged as security:

Terms and conditions	2 015	2 014
Asset 1	388 010	132 988
Finance lease agreements are secured by motor vehicles with ABSA Bank Limited. Refer note (13)		
Asset 2	558 333	2 195 400
Finance lease agreements are secured by a Grader and Tractor loader backhoe with ABSA Bank Limited. Refer note (13)		

#### Revaluations

The effective date of the revaluations was 30 June 2015. Revaluations were performed by an independent valuer. Community assets are re-valued independently annually.

The valuation was performed using the Depreciated Replacement Cost.

Community	75 214 473	75 517 357
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#### Changes in Accounting Estimates

##### Infrastructure

The municipality revised the useful life of certain infrastructure. The net effect of the change in accounting estimate on the future carrying value of property, plant and equipment is nil.

The net effect of the change of useful life on the current year depreciation and carrying amount is as follows:

Depreciation before revision	(279 233)	-
Depreciation based on revised useful life	448 459	-
	<b>169 226</b>	<b>-</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
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### 4. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer Software	2 418 890	(2 406 385)	12 505	2 413 711	(2 366 861)	46 850

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer Software	46 850	5 180	(39 525)	12 505

#### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer Software	160 472	13 165	(126 787)	46 850

#### Pledged as security

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

### 5. Employee benefit obligations

#### Long service bonus award

The municipality offers employees long service bonus awards upon attaining the required years of service.

The most recent actuarial valuation of the long service bonus awards liability at 30 June 2015 was performed by TG Mhonde, a Senior Actuarial Consultant and CJ Maroba, a Fellow of the Faculty of Actuaries, from One Pangea Financial.

The liability accrued is the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases. For each employee this projection is based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death.

The Projected Unit Credit method of funding has been applied.

#### Changes in the present value of the defined benefit obligation are as follows:

Opening balance	465 804	363 734
Net expense recognised in the statement of financial performance	(96 952)	102 070
	<b>368 852</b>	<b>465 804</b>

#### Net expense recognised in the statement of financial performance

Current service cost	113 828	93 827
Actuarial (gains) losses	(198 583)	12 844
Settlement	(12 197)	(4 601)
	<b>(96 952)</b>	<b>102 070</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>5. Employee benefit obligations (continued)</b>		
<b>Calculation of actuarial gains and losses</b>		
Actuarial (gains) losses – Obligation	368 852	465 804
<b>Key assumptions used</b>		
The key assumptions used in the valuation is as follows:		
Discount rates used	8,49 %	8,51 %
Expected rate of return on assets	6,18 %	6,82 %
Expected increase in salaries	7,18 %	7,82 %
Expected pension increases	1,22 %	0,64 %
Mortality - SA85-90 (2014:SA85-90)		
Normal retirement age - 63 (2014: 63)		

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
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### 5. Employee benefit obligations (continued)

#### Other assumptions

The following withdrawal assumptions were applicable over the prior and current valuation periods:

Example at stated age	Withdrawal rates
20	16%
25	12%
30	10%
35	8%
40	6%
45	4%
50	2%
55+	0

The following ill health and early retirement assumptions were applicable over the current and previous financial year ends:

Example at stated age	Ill-health and early retirement
31	0.02%
35	0.10%
40	0.20%
45	0.30%
50	0.50%
55	1.00%
60	1.80%
62	2.32%

The valuation results are sensitive to changes in the underlying assumptions. The effects of varying these assumptions are illustrated below:

#### Salary inflation

The valuation bases assumes that the salary inflation rate (which manifests itself as the annual increase in employees' salaries which determine the bonus payable) will be 1.21% less than the corresponding discount rate, in the long term. The effect of a one percent increase and decrease in the salary inflation rates is as follows:

	One percentage point increase	One percentage point decrease
Accrued Liability	406 131	336 091
Expense Cost	99 963	81 534

#### Mortality

The following shows the impact of a change in the mortality assumption from SA85-90 to SA85-90 with a two year adjustment:

	SA85-90-2
Accrued liability	370,822
Expense cost	90,671

SA85-90- 2 (with a two year adjustment) means that to each beneficiary a mortality rate of an individual two years younger than that beneficiary is assigned.



# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
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### 6. Long term receivables

Included in long term receivables is the following:

- a) an amount owed by Renaissance Projects cc as a result of fraud against the municipality. The affected party was found guilty and given a suspended sentence of four years on condition that the misappropriated funds are paid back to the municipality.
- b) an amount of R40 520 owing by certain councillors from the 2012 financial year end.
- c) an amount of R82 855 from employees being an incorrect overtime payment made arising in the 2011/2012 financial year .

#### Non-current receivables

Cllr Jwara GZ	3 720	3 720
Cllr Mqadi BC	3 320	3 320
Cllr Dlamini NR	3 720	3 720
Cllr Myeza BG	3 720	3 720
Cllr Khanyase KG (deceased)	3 720	3 720
Cllr Mchunu AS	3 720	3 720
Cllr Mngadi BC	3 720	3 720
Cllr Sibisi TE (deceased)	3 720	3 720
Cllr Muthwa T	3 720	3 720
Cllr Kweyama LL	3 720	3 720
Cllr Ngcobo MC	3 720	3 720
Staff debtors	82 855	82 855
Renaissance Projects cc	45 836	45 836
	<b>169 211</b>	<b>169 211</b>

### 7. Receivables from exchange transactions

Deposits	11 897	11 897
Prepaid expenses	8	144 497
Sundry debtors	1 156 642	286 098
Staff debtors	287 498	46 262
	<b>1 456 045</b>	<b>488 754</b>

The municipality did not pledge any of its Receivables as security for borrowing purposes.

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

### 8. VAT receivable

VAT	-	7 118 764
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VAT is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>9. Receivables from non - exchange transactions</b>		
<b>Gross balances</b>		
Rates	4 223 575	3 516 169
<b>Less: Allowance for impairment</b>		
Rates	(2 943 735)	(2 182 685)
<b>Net balance</b>		
Rates	1 279 840	1 333 484
<b>Rates</b>		
Current (0 -30 days)	338 238	299 136
31 - 60 days	167 185	129 882
61 - 90 days	152 942	97 030
91 - 120 days	155 369	128 405
121 - 365 days	466 106	679 031
	<b>1 279 840</b>	<b>1 333 484</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(2 182 685)	(2 120 657)
Contributions to allowance	(761 050)	(62 028)
	<b>(2 943 735)</b>	<b>(2 182 685)</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>10. Cash and cash equivalents</b>		
Cash and Cash Equivalents consist of:		
Cash on Hand	2 750	5 300
Bank Balances	5 574 170	654 754
Call deposits	26 138 829	8 113 005
	<b>31 715 749</b>	<b>8 773 059</b>

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
Absa Bank -MPRA Account - 4074472671	1 806 705	408 745	1 083 353	1 806 705	408 745	1 083 353
Absa Bank - Main Account - 4069991393	3 767 465	246 009	5 571 357	3 767 465	246 009	5 571 357
Absa Bank - Call Account - 9278060312	11 237 624	920 645	5 164 232	11 237 624	920 645	5 164 232
Standard Bank - 32 Days Call Account - 058771204	3 605 673	3 422 071	3 267 975	3 605 673	3 422 071	3 267 975
Absa Bank - Call Account - Dep Plus - 9286081784	733 066	694 435	-	733 066	694 435	-
Absa Bank - Call Account - DOE - 929866983	2 878 181	2 455 989	-	2 878 181	2 455 989	-
Absa Bank - Call Account - MIG - 9293870443	3 677 872	165 622	-	3 677 872	165 622	-
Absa Bank - Call Account - FMG - 9293866975	911 474	72 494	-	911 474	72 494	-
Absa Bank - Call Account - MSIG - 9293866917	555 618	381 749	-	555 618	381 749	-
Absa Bank - Call Account - EPWP - 9299394156	278 152	-	-	278 152	-	-
Absa Bank - Call Account - Cap Reserve - 9300480987	2 261 168	-	-	2 261 168	-	-
<b>Total</b>	<b>31 712 998</b>	<b>8 767 759</b>	<b>15 086 917</b>	<b>31 712 998</b>	<b>8 767 759</b>	<b>15 086 917</b>

### 11. Revaluation reserve

Opening balance	163 391	163 391
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### 12. Accumulated surplus

Included in accumulated surplus is ring fenced funds of R4 900 957 (2014: R2 182 944)

	Accumulated surplus	Total
Opening balance restated	132 410 665	132 410 665
Surplus for the year	10 586 669	10 586 669
	<b>142 997 334</b>	<b>142 997 334</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>12. Accumulated surplus (continued)</b>		
Included in accumulated surplus is ring fenced funds of R2 182 944 ( 2013: R0 )		
	Accumulated surplus	Total
Opening balance restated	123 857 511	123 857 511
Surplus for the year	8 553 154	8 553 154
	<b>132 410 665</b>	<b>132 410 665</b>
<b>13. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	346 021	845 629
- in second to fifth year inclusive	975 803	702 262
	1 321 824	1 547 891
less: future finance charges	(283 669)	(186 459)
<b>Present Value of minimum Lease Payments</b>	<b>1 038 155</b>	<b>1 361 432</b>
<b>Present value of minimum lease payments due</b>		
- within one year	254 125	759 747
- in second to fifth year inclusive	784 030	601 685
	<b>1 038 155</b>	<b>1 361 432</b>
Non-Current Liabilities	784 030	601 685
Current Liabilities	254 125	759 747
	<b>1 038 155</b>	<b>1 361 432</b>

Instalment sale agreements are secured by plant with carrying value of R558 333.33, repayable in monthly instalments of R16 436.43 and bears interest of between 10% and 15%.

Instalment sale agreements are secured by motor vehicles with carrying value of R388 010.16, repayable in monthly instalments of R15 237.80 and bears interest of between 9% and 15%.

### Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	1 038 155	1 361 432
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The fair value of finance lease liabilities approximates their carrying amounts.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>14. Unspent conditional grants and receipts</b>		
<b>Unspent Conditional Grants and Receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
MIG	3 949 563	-
Integrated National Electrification grant	-	1 667 178
KZN Sports grant	550 116	612 316
Disaster grant	400 287	648 237
COGTA - LED strategy	7 127	120 170
MAP (DTLGA - Municipal Finance)	420 079	-
Grant Disaster Phase 2	401 000	-
DLGTA-Anti corruption grant	22 541	22 541
Development of municipal housing grant	-	17 418
Homeowners ploughing assistance programme	14 905	14 905
DTLGA - HR systems	7 000	7 000
Development planning	3 354	3 354
Umdumezulu/Isimahlala rural housing project	131	131
<b>Total unspent Conditional Grants and Receipts</b>	<b>5 776 103</b>	<b>3 113 250</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	3 113 250	10 155 978
Additions net of transfers during the year	25 477 942	25 638 922
Income recognition during the year	(22 815 089)	(32 681 650)
	<b>5 776 103</b>	<b>3 113 250</b>

See note 20 for reconciliation of grants from National/Provincial Government.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
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### 15. Provisions

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Total
Provision for Annual Bonus	506 360	655 850	(506 360)	655 850
Provision for Leave Pay	1 046 828	1 237 280	(822 445)	1 461 663
	<b>1 553 188</b>	<b>1 893 130</b>	<b>(1 328 805)</b>	<b>2 117 513</b>

#### Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Provision for Annual Bonus	378 056	128 304	506 360
Provision for Leave Pay	920 842	125 986	1 046 828
	<b>1 298 898</b>	<b>254 290</b>	<b>1 553 188</b>

The provision for bonus figure is 13th cheques paid to employees on the 20th of August on a yearly basis which is equivalent to one months salary which is calculated on a prorata basis.

Provision for leave pay is the provision for leave days due to an employee upon termination of employment.

The movement in current provisions are reconciled as follows:-

	Provision for Bonus	Provision for leave
2015		
Balance as at 1 July 2014	506 360	1 046 828
Contribution to provision	149 490	414 835
<b>Balance as at 30 June 2015</b>	<b>655 850</b>	<b>1 461 663</b>
2014		
Balance as at 1 July 2013	378 056	920 842
Contribution to provision	128 304	125 986
<b>Balance as at 30 June 2014</b>	<b>506 360</b>	<b>1 046 828</b>

### 16. Payables from exchange transactions

Trade Payables	2 656 020	1 611 847
Payments received in advanced - contract in process	337 784	46 798
Accruals	2 166 291	2 512 403
Other Payables	150 006	19 844
Retention and surety	1 251 794	971 970
	<b>6 561 895</b>	<b>5 162 862</b>

No credit period exists for Payables from Exchange Transactions, neither has any credit period been arranged. Interest is charged on outstanding amounts.

No terms for payment have been re-negotiated by the municipality.

### 17. VAT payable

Tax payable	1 003 889	-
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# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>18. Revenue</b>		
Rental of facilities and equipment	271 264	260 000
Sundry Income	102 702	142 632
Interest received - investment	1 523 098	856 364
Property rates	2 234 469	2 236 507
Government grants & subsidies	71 472 089	66 853 649
	<b>75 603 622</b>	<b>70 349 152</b>

**The amount included in revenue arising from exchanges of goods or services are as follows:**

Rental of facilities and equipment	271 264	260 000
Other income	102 702	142 632
Interest received - investment	1 523 098	856 364
	<b>1 897 064</b>	<b>1 258 996</b>

**The amount included in revenue arising from non-exchange transactions is as follows:**

<b>Taxation revenue</b>		
Property rates	2 234 469	2 236 507
<b>Transfer revenue</b>		
Grants and Subsidies	71 472 089	66 853 649
	<b>73 706 558</b>	<b>69 090 156</b>

## 19. Property Rates

### Rates Levied

Residential	1 658 524	1 660 562
State	575 945	575 945
	<b>2 234 469</b>	<b>2 236 507</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>20. Government Grants and Subsidies</b>		
Equitable share	48 657 000	34 172 000
KZN Human Settlements	328 927	1 106 469
MIG	12 050 437	21 798 850
Integrated National Electrification grant	6 667 178	4 555 579
Financial Management grant	1 800 000	1 766 538
MSIG grant	934 000	890 000
KZN Sports grant	62 200	61 100
COGTA - LED strategy	113 043	-
Thusong Centre Management Grant	-	103 295
LG Seta grant	31 433	33 453
CDW	-	1 474
Johnny Area Community Gardens	-	5 727
Disaster grant	247 950	2 251 763
Mjunundu	-	3 680
DLGTA-Anti corruption grant	-	102 664
Extended Public Works Programme	579 921	-
Amahwaqa Housing Project -DOH	-	1 000
Peanut butter project grant	-	57

<b>71 472 089</b>	<b>66 853 649</b>
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### KZN Human Settlements

Current-year receipts	328 927	1 106 469
Conditions met - transferred to revenue	(328 927)	(1 106 469)
	-	-

### MIG

Balance unspent at beginning of year	-	4 839 850
Current-year receipts	16 000 000	16 959 000
Conditions met - transferred to revenue	(12 050 437)	(21 798 850)
	<b>3 949 563</b>	-

Conditions still to be met - remain liabilities (see note 14). MIG funds of R2,000,000 was withheld from the municipality in terms of the Dision of Revenue act due to low spending.

### Integrated National Electrification grant

Balance unspent at beginning of year	1 667 178	1 222 758
Current-year receipts	5 000 000	5 000 000
Conditions met - transferred to revenue	(6 667 178)	(4 555 580)
	-	<b>1 667 178</b>

### Finance management grant

Balance unspent at beginning of year	-	116 538
Current-year receipts	1 800 000	1 650 000
Conditions met - transferred to revenue	(1 800 000)	(1 766 538)
	-	-



# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>20. Government Grants and Subsidies (continued)</b>		
<b>Municipal Systems Improvement Grant (MSIG)</b>		
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 000)
	-	-
<b>KZN Sports grant</b>		
Balance unspent at beginning of year	612 316	673 416
Conditions met - transferred to revenue	(62 200)	(61 100)
	<b>550 116</b>	<b>612 316</b>
Conditions still to be met - remain liabilities (see note 14).		
<b>Disaster grant</b>		
Balance unspent at beginning of year	648 237	2 900 000
Conditions met - transferred to revenue	(247 950)	(2 251 763)
	<b>400 287</b>	<b>648 237</b>
Conditions still to be met - remain liabilities (see note 14).		
<b>COGTA - LED strategy</b>		
Balance unspent at beginning of year	120 170	120 170
Conditions met - transferred to revenue	(113 043)	-
	<b>7 127</b>	<b>120 170</b>
Conditions still to be met - remain liabilities (see note 14).		
<b>LGSETA GRANT</b>		
Current-year receipts	31 433	33 453
Conditions met - transferred to revenue	(31 433)	(33 453)
	-	-
<b>Extended Public Works Programme</b>		
Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(579 921)	-
	<b>420 079</b>	-
Conditions still to be met - remain liabilities (see note 14).		
<b>Grant Disaster Phase 2</b>		
Current-year receipts	401 000	-
Conditions still to be met - remain liabilities (see note 14).		
<b>DLGTA Anti-corruption grant</b>		

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>20. Government Grants and Subsidies (continued)</b>		
Balance unspent at beginning of year	22 541	125 205
Conditions met - transferred to revenue	-	(102 664)
	<b>22 541</b>	<b>22 541</b>
Conditions still to be met - remain liabilities (see note 14).		
<b>Development of municipal housing grant</b>		
Balance unspent at beginning of year	17 418	17 418
Transferred to Treasury	(17 418)	-
	<b>-</b>	<b>17 418</b>
<b>Homeowners ploughing assistance programme</b>		
Balance unspent at beginning of year	14 905	14 905
<b>DTLGA - HR systems</b>		
Balance unspent at beginning of year	7 000	7 000
Conditions still to be met - remain liabilities (see note 14).		
<b>Development planning grant</b>		
Balance unspent at beginning of year	3 354	3 354
Conditions still to be met - remain liabilities (see note 14).		
<b>Umdumezulu/Ismahla rural housing project</b>		
Balance unspent at beginning of year	131	131
Conditions still to be met - remain liabilities (see note 14).		
<b>21. Other income</b>		
Miscellaneous income	102 702	142 632
Other income includes amounts realised from tender documents sales, rate clearance certificates, hall hire and any other income which is not routine.		

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>22. General Expenses</b>		
Advertising	236 579	305 952
Auditors Remuneration	1 381 265	907 667
Bank Charges	117 920	127 229
Cleaning	67 715	29 393
Electricity	207 860	162 006
Entertainment	205 950	169 535
Insurance	352 196	323 899
Professional fees	1 079 470	451 120
Motor Vehicle Expenses	739 299	739 284
Other expenses	1 481 441	1 192 773
Printing and Stationery	295 963	367 590
Projects	8 475 525	8 664 929
Security	325 126	265 144
Software expenses	135 530	80 546
Subscriptions and publication	504 334	456 980
Subsistence, travel and accommodation	1 247 069	607 464
Telephone and fax	545 500	381 211
Training	214 598	90 304
Uniforms	3 500	33 999
Water and sanitation	77 958	42 265
	<b>17 694 798</b>	<b>15 399 290</b>

The amounts disclosed above for Other Expenses are in respect of costs incurred in the general management of the municipality and not directly attributable to a specific service or class of expense.

The amounts disclosed for Projects include the following projects:

- Free Basic Electricity
- Free Basic Services
- Cemetery and burial assistance
- Disabled
- Education Fund
- Gender Forum
- HIV/Aids
- LED Pilot business plan
- Public participation ward committee
- Senior Citizen
- Tourism
- Youth
- Ward Committee Incentives
- Biometric Access Control
- PMU Technical
- VAT Reviewal
- Operational cost for Grader

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>23. Employee related costs</b>		
Basic salary	13 511 928	10 785 225
Company contributions	1 928 620	1 677 038
UIF	87 759	84 422
Skill Development Levy	210 500	182 691
(Decrease/Increase in Long service award benefit provision	(73 054)	118 278
Travel allowances	857 197	897 851
Acting allowances	78 164	179 728
Housing benefits and allowances	166 620	554 474
Group Life	7 565	118 179
Bonus	871 199	754 201
Other salary costs	3 661	3 301
Cell Allowance	4 442	-
	<b>17 654 601</b>	<b>15 355 388</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	614 326	513 925
Car Allowance	126 697	126 697
Contributions to UIF, Medical and Pension Funds	149 549	204 777
Backpay	79 362	18 399
	<b>969 934</b>	<b>863 798</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	756 727	657 609
Car Allowance	11 037	-
Contributions to UIF, Medical and Pension Funds	10 140	8 212
Backpay	64 833	-
Subsistence & Travel Allowance	3 341	-
	<b>846 078</b>	<b>665 821</b>
<b>Remuneration of Corporate Services Director</b>		
Annual Remuneration	560 685	415 999
Car Allowance	70 000	120 000
Contributions to UIF, Medical and Pension Funds	9 582	8 386
Housing Allowance	84 000	144 000
Backpay	64 399	-
Subsistence & Travel Allowance	8 484	-
	<b>797 150</b>	<b>688 385</b>
<b>Remuneration of the Technical Services Director</b>		
Annual Remuneration	511 727	300 000
Car Allowance	175 000	300 000
Contributions to UIF, Medical and Pension Funds	9 885	8 426
Housing Allowance	70 000	120 000
Backpay	68 187	-
Subsistence & Travel Allowance	20 440	-
	<b>855 239</b>	<b>728 426</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>24. Remuneration of Councillors</b>		
Mayor	654 923	628 845
Deputy Mayor	549 260	507 953
Executive Committee Members	967 584	955 900
Speaker	549 260	507 953
Councillors	5 096 805	4 083 260
	<b>7 817 832</b>	<b>6 683 911</b>

### In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. The Mayor and the speaker are provided with an office and secretarial support at the cost to the municipality. The mayor is also allocated a driver to help with his day to day activities.

The Mayor has the use of separate Council owned vehicles for official duties.

The Mayor did not have bodyguards during the current year.

Certain Council members owe the municipality R40 520 from the 2012 financial year end. No payment has been made to date and no interest has been charged. Refer to note 6 for additional details

### 25. Repairs and maintenance

General	616 207	407 280
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### 26. Debt Impairment

Contributions to debt impairment provision	761 050	62 028
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### 27. Interest received

#### Interest revenue

Bank - call and cheques accounts	1 523 098	856 364
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### 28. Depreciation and Amortisation

Property, plant and equipment	11 476 114	15 345 134
Intangible assets (amortisation)	39 525	126 787
	<b>11 515 639</b>	<b>15 471 921</b>

### 29. Finance costs

Finance leases	112 923	199 840
Late payment of tax	146 123	99 589
	<b>259 046</b>	<b>299 429</b>

### 30. Auditors' Remuneration

Fees	1 381 265	907 667
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Auditor's remuneration relates to amounts paid to the Auditor General

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>31. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	271 264	260 000
<b>32. Contracted services</b>		
Information Technology Services	43 942	-
Operating Leases	648 947	99 816
	<b>692 889</b>	<b>99 816</b>
<b>33. Grants and subsidies paid</b>		
<b>Grant Expenditure</b>		
MSIG	18 354	690 141
MSIG	599 448	-
INEP	5 588 127	3 996 122
FMG	1 321 411	1 131 649
Disaster	218 067	2 053 303
DLGTA - Anti-corruption	-	90 056
Municipal infrastructure investment programme	-	5 670
Amahwaqa housing project	387 436	1 181
FMG	-	3 680
LED review strategy	6 718	-
KZN Sport grant	200	23 500
	<b>8 139 761</b>	<b>7 995 302</b>
<b>34. Gain/(loss) on disposal of assets and liabilities</b>		
Gain/(loss) on disposal of assets	134 870	(21 633)
<b>35. Cash Generated from Operations</b>		
Surplus	10 586 669	8 553 154
<b>Adjustments for:</b>		
Depreciation and Amortisation	11 515 639	15 471 921
(Profit) /Loss on Sale of Assets and Liabilities	(134 870)	21 633
Finance Costs - Finance Leases	-	-
Movements in retirement benefit assets and liabilities	(96 952)	102 070
Movements in Provisions	564 325	254 290
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(967 291)	(381 012)
Trade and other receivables from non exchange transaction	53 644	(971 439)
Other receivables from non-exchange transactions	-	-
Payables from exchange transactions	1 399 032	892 196
VAT	8 122 653	(780 023)
Unspent conditional grants and receipts	2 662 853	(7 042 728)
	<b>33 705 702</b>	<b>16 120 062</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>36. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	33 659 299	4 135 692
<b>Not yet contracted for and authorised by accounting officer</b>		
• Property, plant and equipment	18 423 190	13 819 227
<b>Not yet contracted for and authorised</b>		
The municipality has authorised R18,423,190 (2014: R13,819,227) of capital expenditure which has not been contracted for.		
This committed expenditure relates to capital expenditure and will be financed by Government Grants.		
<b>Operating Commitments</b>		
These commitments relates to contracts entered into for electrification, The supply and installation of biometric access, commissioning of three servers and provision of internal audit devices	3 623 320	9 240 760
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	901 524	35 598
- in second to fifth year inclusive	690 327	-
	<b>1 591 851</b>	<b>35 598</b>

1. Operating lease payments represent rentals payable by the municipality for six vehicles negotiated for 3 years, payable monthly, for the rental of vehicles. No contingent rent is payable.
2. Operating lease payments represent rentals payable by the municipality for two printers negotiated for 1 year.
3. Operating lease consist of a Telephonic System negotiated for 2 years for a fixed subscription fee.

### 37. Contingent Liabilities

a) On 21 April 2010 SALGA signed the "Categorisation and job evaluation wage curves collective agreement" (wage curve agreement) with IMATU and SAMWU on behalf of municipalities. The agreement established the wage curves and wage scales to be used by municipalities in determining the wages of municipal employees, based on an evaluation of employees' jobs per the TASK job evaluation system.

Subsequent to signing of the agreement, the unions declared a dispute with the agreement. The dispute was referred to the Labour Court and the court delivered a ruling on 22 June 2012 that employees receive a salary increase backdated with effect from 1 July 2010 instead of 1 July 2011. SALGA, on behalf of municipalities, applied for leave to appeal this ruling and was granted the right to appeal against the judgement on 29 August 2012. To date this Labour Court of Appeal case has not been finalised.

As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional receivable/ payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this receivable/ payable prior to the outcome of the pending litigation

b) There is a pending dispute which employees have raised and has been referred to The South African Local Bargaining Council. The disputed amount is R881 618.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
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### 38. Related parties

#### Relationships

Municipalities and Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel of the municipality are those persons, directly and indirectly, having authority and responsibility for planning, directing and controlling the activities of the municipality. The key management is defined as the Municipal Manager, Chief Financial officer and all other managers reporting directly to the Municipal manager or as designated by the Municipal Manager.

Any payment made to key management personnel and councillors is disclosed in note 23 and note 24 (Employee related cost and Remuneration of councillors).

Loans key management and close member of family - interest free	Opening balance	Closing balance
Cllr Jwara GZ	3 720	3 720
Cllr Mqad BC	3 320	3 320
Cllr Dlamini NR	3 720	3 720
Cllr Myeza BG	3 720	3 720
Cllr Khanyase KG (deceased)	3 720	3 720
Cllr Mchunu AS	3 720	3 720
Cllr Mngadi BC	3 720	3 720
Cllr Sibisi TE (deceased)	3 720	3 720
Cllr Muthwa T	3 720	3 720
Cllr Kweyama LL	3 720	3 720
Cllr Ngcobo MC	3 720	3 720
	<b>40 520</b>	<b>40 520</b>

### 39. Adjustment of Prior Year Errors

The adjustment of prior year errors resulted from the following:

- vat on expenditure not accounted for correctly;
- property, plant and equipment;
- investment property;
- reclassification where necessary to provide a more meaningful comparison.



# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand

### 39. Adjustment of Prior Year Errors (continued)

#### Adjustment for errors in the prior year is as follows:

Opening Accumulated Surplus or Deficit 132 232 911 -

#### Statement of Financial Position

	As previously reported	Reclassification	Correction of errors	Restated
Receivable from exchange transactions	488 754	-	-	488 754
VAT receivable	7 130 851	-	(12 087)	7 118 764
Receivable from non-exchange transactions	1 330 748	-	2 736	1 333 484
Current portion of non-current receivables	-	-	-	-
Cash and cash equivalent	8 773 059	-	-	8 773 059
Investment Property	-	-	185 000	185 000
Property, plant and equipment	126 056 247	-	59 222	126 115 471
Intangible assets	46 850	-	-	46 850
Non-current receivables	169 211	-	-	169 211
<b>Total Assets</b>	<b>143 995 720</b>	<b>-</b>	<b>234 871</b>	<b>144 230 593</b>
Current portion of finance lease obligation	(759 747)	-	-	(759 747)
Payables from exchange transactions	(5 105 744)	-	(57 118)	(5 162 850)
Unspent conditional grants and receipts	(3 113 250)	-	-	(3 113 250)
Provisions	(1 553 188)	-	-	(1 553 188)
Non-current portion of finance lease obligation	(601 685)	-	-	(601 685)
Employee benefit obligation	(465 804)	-	-	(465 804)
Revaluation Reserve	(163 391)	-	-	(163 391)
Accumulated surplus	(132 232 911)	-	(177 753)	(132 410 664)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>14</b>

#### Statement of Financial Performance

	As previously reported	Changes in accounting policy	Reclassification	Correction of errors	Restated
Property rates	2 236 507	-	-	-	2 236 507
Rental of facilities and equipment	260 000	-	-	-	260 000
Interest received	856 364	-	-	-	856 364
Government grants & subsidies	66 853 649	-	-	-	66 853 649
Other income	135 640	-	-	6 992	142 632

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand

### 39. Adjustment of Prior Year Errors (continued)

Total Revenue	70 342 160	-	-	6 992	70 349 152
Employee related costs	(15 355 388)	-	-	-	(15 355 388)
Remuneration of councillors	(6 683 911)	-	-	-	(6 683 911)
Depreciation and amortisation	(15 497 808)	-	-	25 887	(15 471 921)
Debt impairment	(62 028)	-	-	-	(62 028)
Repairs and maintenance	(638 584)	-	231 304	-	(407 280)
Finance cost	(299 429)	-	-	-	(299 429)
Grants and subsidies paid	(7 995 302)	-	-	-	(7 995 302)
Contracted services	-	-	(99 816)	-	(99 816)
General expenses	(15 267 802)	-	(131 488)	-	(15 399 290)
Loss on disposal of asset	(21 633)	-	-	-	(21 633)
<b>Surplus</b>	<b>8 520 275</b>	<b>-</b>	<b>-</b>	<b>32 879</b>	<b>8 553 154</b>

### Cashflow Statement

	As previously reported	Changes in accounting policy	Reclassification	Correction of errors	Restated
Grants	59 525 611	-	-	-	59 525 611
Interest income	856 364	-	-	-	856 364
Cash receipts from customers	1 505 714	-	-	4 256	1 509 970
	61 887 689	-	-	-	61 891 945
Employee costs	(21 682 939)	-	-	-	(21 682 939)
Finance costs	(299 429)	-	-	-	(299 429)
Payments to suppliers	(23 858 719)	-	-	69 204	(23 789 515)
	(45 841 087)	-	-	69 204	(45 771 883)
Net cashflows from operating activities	16 046 602	-	-	69 204	16 120 062
Purchase of property, plant and equipment	(19 525 641)	-	-	(73 464)	(19 599 105)
Purchase of other intangible assets	(13 165)	-	-	-	(13 165)
Proceeds from sale of assets	33 000	-	-	-	33 000
Increase in finance lease liability	(547 832)	-	-	-	(547 832)
Cash and cash equivalents at the beginning of the year	12 780 095	-	-	-	12 780 095
	<b>12 780 095</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12 780 095</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R
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### 40. Comparative figures

Certain comparative figures have been restated where necessary to provide a more meaningful comparison.

### 41. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by the internal audit unit under policies approved by the accounting officer. The Municipality internal audit unit identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and rates debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2015	2014
Bank accounts	31 715 749	8 773 059
Trade receivable from non exchange transactions	1 279 840	1 333 484
Receivables from exchange transactions	1 456 045	488 754
Non current receivables	169 211	169 211

### 42. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 43. Events after the reporting date

No events occurred after the reporting date which impacts on the financial statements.

### 44. Fruitless and wasteful expenditure

Interest and penalties on overdue accounts	146 123	99 589
Legal fees	-	53 156
Payment made for annual maintenance of equipment not utilised	5 490	8 231
	<b>151 613</b>	<b>160 976</b>

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015 R	2014 R	
<b>45. Irregular expenditure</b>			
Opening balance	46 613 390	40 217 036	
Add: Irregular Expenditure - current year	5 105 928	6 396 354	
	<b>51 719 318</b>	<b>46 613 390</b>	
<b>Details of irregular expenditure</b>			
	<b>Action taken</b>	<b>2015</b>	<b>2014</b>
Tender was awarded by a Special Council resolution instead of following the SCM process	To be investigated by MPAC and to be reported to National Treasury	-	2 251 763
Unauthorised usage of municipal vehicle	Awaiting condonation by Council	-	34 762
Payment made for the provision of water service in contravention of Section 41(f) and (g) of the Constitution of South Africa. The provision of Water Services is a function of the District Municipality. Also, purchase not in accordance with the SCM Policy	To be investigated by MPAC and to be reported to National Treasury	3 956 097	4 109 829
Purchases not in accordance with the SCM Policy		1 149 831	-
		<b>5 105 928</b>	<b>6 396 354</b>
<b>46. Additional disclosure in terms of Municipal Finance Management Act</b>			
<b>Audit fees</b>			
Opening balance		-	19 689
Current year subscription / fee		1 220 713	1 204 886
Amount paid - current year		(1 220 713)	(1 224 575)
<b>Balance unpaid included in accruals</b>		-	-
<b>PAYE and UIF</b>			
Current year subscription / fee		4 152 393	3 541 854
Amount paid - current year		(4 152 393)	(3 541 854)
		-	-
<b>Pension and Medical Aid Deductions</b>			
Current year subscription / fee		3 892 060	3 166 382
Amount paid - current year		(3 892 060)	(3 166 382)
		-	-
<b>VAT</b>			
VAT receivable		-	7 118 764
VAT payable		1 003 889	-
		<b>1 003 889</b>	<b>7 118 764</b>

VAT output payables and VAT input receivables are shown in the notes.

VAT returns have been submitted by the due date throughout the year with the exception of 1 return.

# Vulamehlo Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

	2015	2014
	R	R

### 47. Actual operating expenditure versus budgeted operating expenditure

47.1 Employee related costs - less than budget due to vacant posts not filled during the year.

47.2 Depreciation and amortisation : Low depreciation estimation for 2014/2015 prior to infrastructure asset verification conducted at year end.

47.2 Finance Cost: Due to interest on late payment to SARS.

47.3 Debt impairment: This is due to an increase in the provision for doubtful debts resulting from collection of debts being less than anticipated.

47.4 Repairs and maintenance: Time between adjusted budget in February 2015 and year end in June was not adequate to allow supply chain management processes to complete awarding of tenders for repairing roads infrastructure assets.

47.5 Grants and subsidies paid: This is due to the budget reflected as grants and subsidies most of it is funded by the equitable share and the actual expenditure incurred or Projects are included under general expenditure.

47.6 General expenses: This is due to the budget for special programmes being budgeted under equitable share and the expenditure thereof being reported in different votes as a result the reflection on the general expenses vote after taking in to consideration the budget would result in under expenditure.

### 48. Deviation from supply chain management regulations

Paragraph 36 of Government gazette No. 27636 issued on 30 May 2005 states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Goods and services amounting to R1,517,024 (2014: R3,065,371) procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. These deviations have been reported to Council.

**Appendix A**  
June 2015

**Schedule of external loans as at 30 June 2015**

<b>Loan Number</b>	<b>Redeemable</b>	<b>Balance at 30 June 2014</b>	<b>Received during the period</b>	<b>Redeemed written off during the period</b>	<b>Balance at 30 June 2015</b>	<b>Carrying Value of Property, Plant &amp; Equip Rand</b>	<b>Other Costs in accordance with the MFMA Rand</b>
		<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>		
<b>Lease liability</b>							
Toyota Fortuner	86721266 30/03/2020	-	455 775	21 786	433 989	365 159	-
Isuzu	80570487 01/01/2016	95 684	-	57 890	37 794	22 851	-
Grader	8171650 01/12/2014	459 144	-	459 144	-	-	-
Jeep Cherokee	81762550 01/12/2014	109 092	-	109 092	-	-	-
TLB	84711310 30/11/2018	697 511	-	131 139	566 372	558 333	-
		<b>1 361 431</b>	<b>455 775</b>	<b>779 051</b>	<b>1 038 155</b>	<b>946 343</b>	<b>-</b>
<b>Total external loans</b>							
Lease liability		1 361 431	455 775	779 051	1 038 155	946 343	-
		<b>1 361 431</b>	<b>455 775</b>	<b>779 051</b>	<b>1 038 155</b>	<b>946 343</b>	<b>-</b>

## Appendix B

June 2015

### Segmental Statement of Financial Performance for the year ended Prior Year - 2014 Current Year - 2015

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
<b>Municipality</b>						
6 665 319	6 665 319	-	Executive & Council/Mayor and Council	-	14 549 926	(14 549 926)
35 415 832	37 224 847	(1 809 015)	Finance & Admin/Finance	56 002 193	38 488 148	17 514 045
16 855 357	11 166 168	5 689 189	Planning and Development/Economic Development/Plan	18 026 809	11 855 689	6 171 120
<b>58 936 508</b>	<b>55 056 334</b>	<b>3 880 174</b>		<b>74 029 002</b>	<b>64 893 763</b>	<b>9 135 239</b>
<b>Municipal Owned Entities</b>						
<b>Other charges</b>						
58 936 508	55 056 334	3 880 174	Municipality	74 029 002	64 893 763	9 135 239
<b>58 936 508</b>	<b>55 056 334</b>	<b>3 880 174</b>	<b>Total</b>	<b>74 029 002</b>	<b>64 893 763</b>	<b>9 135 239</b>

## Appendix C

June 2015

### Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2015

	Current year 2014 Act. Bal.	Current year 2014 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
	Rand	Rand	Rand		
<b>Revenue</b>					
Property rates	2 234 469	2 234 611	(142)	-	
Rental of facilities and equipment	271 264	297 029	(25 765)	(8,7)	
Other income	102 702	82 000	20 702	25,2	This is due to the sale of tender documents which was more than anticipated
Government grants & subsidies	69 767 050	78 904 132	(9 137 082)	(11,6)	
Interest received - investment	1 523 098	700 000	823 098	117,6	This is due to underspending on grants invested
	<b>73 898 583</b>	<b>82 217 772</b>	<b>(8 319 189)</b>	<b>(10,1)</b>	
<b>Expenses</b>					
Personnel	(17 654 602)	(18 331 579)	676 977	(3,7)	
Remuneration of councillors	(7 817 831)	(6 001 581)	(1 816 250)	30,3	
Depreciation	(13 574 284)	(11 301 402)	(2 272 882)	20,1	Low depreciation estimation for 2014/2015 prior infrastructure assets verification was conducted at year end
Bulk purchases	-	-	-	-	
Finance costs	(259 046)	(8 432)	(250 614)	972,2	The finance cost figure in the AFS is mapped with different finance cost related figures.
Debt impairment	(761 050)	(2 279 001)	1 517 951	(66,6)	
Repairs and maintenance	(616 207)	(5 712 886)	5 096 679	(89,2)	Time between adjusted budget in Feb 2015 and year end in June was not adequate to allow scm processes to complete awarding of plant for repairing roads infrastructure assets.
Contracted Services	(692 889)	-	(692 889)	-	We anticipated hiring more equipment which never happened.
Grant expenditure	(8 139 761)	(22 307 232)	14 167 471	(63,5)	
General Expenses	(15 636 154)	(15 363 174)	(272 980)	1,8	



## Appendix C

June 2015

### Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2015

	Current year 2014 Act. Bal.	Current year 2014 Adjusted budget	Variance	Explanation of Significant Variances greater than 10% versus Budget
Other revenue	(65 151 824)	(81 305 287)	16 153 463	(19,9)
Gain on disposal of assets	134 870	-	134 870	-
	134 870	-	134 870	-
Net surplus/ (deficit) for the year	8 881 629	912 485	7 969 144	873,3

## Appendix D

June 2015

### Budget Analysis of Capital Expenditure as at 30 June 2015

	Additions	Revised Budget	Variance	Variance	Explanation of significant
	Rand	Rand	Rand	%	variances from budget
<b>Municipality</b>					
Finance & Admin/Finance	43 000	43 000	-	-	
Planning and	10 711 715	24 345 957	13 634 242	12	Some of the budgeted capital projects are not complete
Development/Economic					
Development/Plan					
	<b>10 754 715</b>	<b>24 388 957</b>	<b>13 634 242</b>	<b>56</b>	

**Appendix E**  
**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**  
June 2015

Name of Grants	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Yes/ No
Municipal Infrastructure Grant (MIG)	6 808 000	-	9 192 000	-	882 616	1 334 690	3 049 073	6 784 055	Yes
Intergrated National Electrification Grant	-	3 750 000	1 250 000	-	750 000	2 635 037	825 115	1 080 914	Yes
EPWP	400 000	-	600 000	-	-	81 114	173 043	325 764	Yes
Finance Management Grant (FMG)	1 800 000	-	-	-	283 745	579 597	147 402	789 256	Yes
Municipal Systems Improvement Grant (MSIG)	934 000	-	-	-	406 346	-	96 562	431 092	Yes
Anti-corrupt - DTLGA Municipal Finace	-	-	-	-	-	-	-	-	Yes
Mjunundu Community Gardens	-	-	-	-	-	-	-	-	Yes
COGTA - Appointment of Thusong Manager	-	-	-	-	-	-	-	-	Yes
Johnny Area Community Gardens	-	-	-	-	-	-	-	-	Yes
LGSETA grant	5 784	9 021	14 296	2 332	14 805	-	-	16 628	Yes
Disaster grant	-	-	-	-	-	-	247 950	-	Yes
KZN Sports Grants	-	-	-	-	15 300	15 300	16 300	15 300	Yes
KZN Human Settelement CDW	285 311	43 616	-	-	-	-	-	-	Yes
Disaster Grant phase 2	-	-	401 000	-	-	-	-	-	Yes
LED Strategy	-	-	-	-	-	12 043	-	101 000	Yes
	10 233 095	3 802 637	11 457 296	2 332	2 352 812	4 657 781	4 555 445	9 544 009	

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.